

## Iraq Local Governance Program

# Building Local Financial Management Capability: The Al Basrah Experience

*During Saddam Hussein's regime, local government had little autonomy in service delivery and financial management. Following the U.S.-led overthrow of the regime, a key objective was to get services in place and operational quickly. Helping local government institutions to become effective financial managers proved to be instrumental in restoring essential services and helping to decentralize Iraq's highly centralized governance system.*

Among the objectives of the U.S.-led Coalition Provisional Authority (CPA) were the immediate restoration of essential public services and the reconstruction of major infrastructure to improve the quality of life for Iraqi citizens. These tasks required building local government capacity to identify and manage projects and to properly handle financial resources entrusted to government agencies. The CPA and the coalition forces (CF) faced the challenge of building local government management capabilities in a postconflict setting where Iraqis had little experience with local decision making and the government was generally seen as corrupt. In addition, the legacy of decades of central government control and intimidation had conditioned local officials and the civil service not to take initiative, and the public-finance apparatus was in shambles. Without telephone or other electronic communications, governorates generally had no contact with the central government for several months at a time unless by personal visit. In addition, senior managers had fled or

were dismissed by the CPA and were replaced by inexperienced junior staff, leaving a large managerial vacuum. This brief describes the launch of the Iraq Local Governance Program's (LGP's) public-finance management program in Al Basrah and presents some lessons learned from the experience.

### Designing the local public-finance technical assistance program

During the immediate postconflict period, the CPA gave considerable attention to restoring basic essential services—water, sewerage, and electricity—across Iraq. Although service restoration was certainly an important priority, equally important was the restoration of the local civil administration so that it could begin to provide services to citizens and to participate in CPA and CF reconstruction activities. For several months after the formal conflict ended in March and April 2003, most of the local and central ministries' departments still lacked approved 2003 operating and capital budgets to repair, furnish, and create functioning offices; restore operations; and allow their workforce to return to work. In addition, in the absence of guidance from the central ministries, which were in disarray, all local civil administration offices needed technical assistance and coaching to help them manage their resources and deliver services.

Across Iraq, LGP assistance targeted the development of local government financial management capabilities. For example, in Kirkuk, the LGP established an accounting and auditing office that reported to the Deputy Governor for Governmental Affairs. In Al Hillah, it established an independent audit function. In Baghdad, it focused on developing and installing an accounting and financial management system in the *Amanat* (the Baghdad mayoralty; the

The United States Agency for International Development (USAID)/Iraq LGP, implemented by RTI International,\* provided training, technical assistance, and other resources, including small grants, to establish and strengthen local administrations, civic institutions, and processes in order to establish, develop, and strengthen a participatory, democratic, subnational government that delivers effective and efficient services to Iraqis. The LGP responded to specific challenges faced by subnational governments, democratic institutions and processes, and civil society organizations (CSOs). The program sought to empower individuals and civic groups to have a say in setting local social and economic development and investment priorities through democratic participation and interactions with local government leaders. The LGP began in March 2003 and ended in May 2005.

\*RTI International is a trade name of the Research Triangle Institute.

equivalent of city hall). In other governorates, LGP teams trained and enhanced the skills of financial officers and staff.

In Al Basrah, as an initial step in providing technical assistance and training to address the needs of local civil administration offices, the LGP team recruited and hired local consultants to conduct baseline assessments during August and September 2003 for about 60 Al Basrah Governorate institutions. The baseline assessments were designed to gather data on the structure of governorate institutions, systems, and procedures already in place. These 60 institutions covered 10 sectors: urban services, finance, education, health, oil, industry and commerce, housing and reconstruction, transportation and communication, agriculture and irrigation, and electricity.

The baseline assessment results indicated that most of the governorate institutions lacked clear guidelines and standard operating procedures (SOPs) for handling administrative tasks; job descriptions for employees; and an organizational structure appropriate for carrying out the institution's mission effectively. Most of the governorate institutions had little or no experience in developing operating and capital budgets because, historically, the central ministries had prepared the budgets. Further, many of the institutions lacked quantitative data on the actual inputs used for developing annual plans and budgets and for delivering services. The baseline results clearly indicated that these departments needed training and technical assistance to build effective administrative systems for efficient service delivery and to use strategic plans and detailed activity information to prepare annual operating and capital budgets. Based on these results, the LGP team then designed, developed, and delivered a training and technical assistance program.

### Launching the public-finance technical assistance and training program

The Al Basrah LGP public-finance team began implementing the program in September 2003. The program targeted four fiscal institutions—the Al Basrah Treasury, the Supreme Audit Board (SAB), and Al Basrah's two tax offices—as well as numerous service departments. In working with the first institution, the Al Basrah Treasury, the LGP focused first on outfitting a functional workspace. The treasury lacked computers, printers, copiers, calculators, and filing cabinets to organize and store its financial records. Although the CPA had provided funding for office space rental from the private sector for 6 months, this allocation was insufficient to support the treasury's workforce in carrying out its suddenly expanded responsibility of managing the finances of more than 40 Al Basrah Governorate institutions.

Before the Second Persian Gulf War, the Al Basrah Treasury had been responsible for managing the finances of only a small number of minor governorate institutions because, for the most part, the Ministry of Finance (MOF) and the central ministries in Baghdad had directly managed the budget funds for the majority of the service institutions in order to maintain central control. Some of the LGP's efforts sought to free local governments from the strict control of the central government by developing strong local financial management capabilities.

The LGP provided a rapid-response grant (RRG) for the provision of computers, calculators, filing cabinets, desks, and chairs to meet the basic requirements of a functional office environment. The LGP then hired two senior advisors—a retired manager of the Rafidian Bank with more than 25 years of banking experience, and a retired general manager of the SAB's southern regional office—and two junior financial analysts. They began providing advice and technical assistance to the treasury by

- Creating a network to route funds through the Central Bank of Iraq's southern branch to the Rafidian Bank, with the Al Basrah Treasury as the link between the two institutions;
- Developing a system for establishing separate bank accounts for the governorate institutions at the Rafidian Bank;
- Developing a monitoring system for the treasury to track the distribution of approved budget allocations to governorate institutions (the system requires these institutions to submit monthly statements to document and verify how the funds have been expended and submit trial balance statements to close out outstanding balances before additional funds can be disbursed); and
- Providing basic computer training courses, including courses on the use of spreadsheets for tracking monthly expenditures.

The LGP's activities to enhance the financial management capabilities of the Al Basrah Treasury spanned 15 months, from September 2003 to November 2004. In November 2004, LGP staff negotiated an agreement with the Central Economic Governance II Program, implemented by BearingPoint, to train treasury staff in the use of that program's Financial Management Information System (FMIS). In addition, the LGP arranged to have two LGP national staff trained in FMIS to serve as trainers and to monitor the implementation of FMIS in the governorate treasury offices in the four southern governorates: Al Basrah, Maysan, Dhi Qar, and Al Muthanna.

The second fiscal institution that the LGP targeted through its public-finance technical assistance and training program was the

SAB. The LGP's assistance to the SAB was linked to CPA Order No. 77, issued on April 18, 2004, which called for an independent audit board to work with the inspectors general of the central ministries and the Commission on Public Integrity to monitor government institutions' use of public funds. The order required the SAB to submit an annual work plan to the legislative body, as well as reports and findings on its audits. It also included a provision for establishing an SAB Web site to disseminate information widely about the SAB's audit work.

After many consultations with the SAB managers and staff on how to implement Order No. 77, the LGP offered to assist them in several areas. First, LGP staff designed a training program with core courses in independent audit standards, financial analysis skills for auditors, and external audit reporting. Second, the LGP provided RRGs to furnish and equip the SAB's conference room to transform it into a regional training center. Third, the LGP sponsored a 10-day government auditing and public procurement study tour to Cairo, Egypt, May 30 to June 9, 2004, for four SAB managers. Upon their return, these managers shared their newly acquired knowledge in government auditing and public procurement with their fellow colleagues. In collaboration with these SAB managers, the LGP also conducted similar workshops for the internal audit and finance managers of other governorate institutions in all four governorates (Al Basrah, Maysan, Dhi Qar, and Al Muthanna) in September and October 2004. Fourth, the LGP facilitated a series of meetings between the SAB and the Al Basrah Governorate Council to enable the two institutions to work together to monitor governorate institutions' use of public funds. The SAB continues to meet with the governorate council to determine how the two entities will work together effectively to monitor the use of public funds by governorate institutions.

The third and fourth fiscal institutions that the LGP targeted through its public-finance technical assistance and training program were the two tax offices in Al Basrah. LGP assistance to the two tax offices helped restore operations and improve tax collection capabilities. The tax offices needed better physical space to increase the productivity of their staff. The Al Basrah LGP provided an RRG in September 2004 for the renovation of a four-story building to co-locate the two offices and provide citizens one central location for taxpayer services. The renovation work was completed in early 2005.

In addition to the technical assistance that the Al Basrah LGP provided to the four key fiscal institutions, the project also supported key governorate service institutions to improve their financial management systems and procedures. The two sectors that the LGP targeted beginning in November 2003 were

education and health. In support of the Al Basrah Education Directorate, the LGP assisted in automating monthly payroll processing for about 24,000 employees. This reduced the time and labor required for monthly payroll processing from 4 weeks to just a few days. The automated payroll system is currently in full use.

LGP assistance to the Al Basrah Health Directorate included developing and installing a centralized financial accounting program to allow the directorate's finance department to better monitor the financial transactions of the 11 hospitals and more than 40 clinics that constitute the Al Basrah public health system. The program is gradually being rolled out to other Health Directorate units in the region.

In addition, the LGP trained and assisted other governorate service institutions in developing their annual operating and capital budget plans; preparing spreadsheet programs to track detailed expenditures for their program activities; and preparing trial balances. LGP staff held several budget workshops to clarify the role of the treasury in managing governorate finances, review MOF budget-execution procedures, and discuss participatory strategic planning concepts.

LGP assistance also fostered coordination among Al Basrah governorate service providers. With assistance from the LGP, CPA, and British military, by early November 2003, many of the governorate institutions had received their 2003 operating and capital budget allocations and had developed basic plans for expending the allocations. They had restored operations, established functioning offices, and engaged their workforces. As these governorate institutions became operational, they needed a forum to hold weekly meetings to coordinate activities across departments and to work together to resolve basic service-delivery issues. The LGP provided technical assistance to the Al Basrah Technical Secretariat, which was established in May 2003 to serve as a central coordinating body and comprises the heads of the key service-delivery governorate institutions. Initially, the LGP and the CF commander co-chaired the secretariat, and the then-governor of Al Basrah, Judge Wael Abdul Latif, or his deputy governors chaired the secretariat's weekly meetings (when their schedules permitted); led the meetings; and provided guidance to departments in resolving service-delivery issues. In early November 2003, the LGP persuaded the governor to replace the LGP and brigade commander in chairing the secretariat and take the lead in convening its weekly meetings. A deputy governor commented that the weekly department-head meetings were the most consistent form of local government that was in place within the Al Basrah Governorate before the transition to

sovereignty in June 2004. By the end of the LGP, 41 official sessions had been held, and the meetings continued to be one of the most important local government activities occurring within the Al Basrah Governorate.

## LGP public-finance technical assistance and training results

From August 2003 to December 2004, the LGP continued to enhance the financial management capabilities of the Al Basrah Governorate's fiscal and service institutions. The treasury is now operational. Operations of both the SAB and the two tax offices have been restored and staff skills enhanced. All governorate institutions have been trained and strengthened to formulate their own operating and capital budgets and to plan for effective service delivery. The payroll system of the Al Basrah Education Directorate has been automated and is now in full use. The Al Basrah Health Directorate's financial management system has also been fully implemented. Governorate institutions are now coordinating the planning and delivery of essential public services through the Governorate Technical Secretariat, chaired by the governor or his deputy. The SAB and the Al Basrah Governorate Councils are working together to foster transparency and accountability in all governorate institutions.

The creation of fiscal management capacity in Al Basrah led the MOF to take some initial steps toward decentralization. The ministry agreed to let service-delivery departments have separate bank accounts and autonomy in managing their funds. However, the release of budgeted funds from the central government to the governorate occasionally experienced delays.

The LGP's assistance to governorate institutions also addressed the critical issue of whether local governments can manage public funds accountably and transparently. This issue is of great concern to international donors, who generally perceive local government officials to be corrupt. As a result of LGP technical assistance and training, Al Basrah arguably has the capacity to manage financial resources and reconstruction projects. More than 1,675 local government officials and staff in Al Basrah and the three other governorates in the region have been trained in planning, budgeting and auditing, and basic principles of fiscal management.

## Lessons

Several key lessons can be drawn from the experience in implementing the Al Basrah LGP public-finance technical assistance program. In the postconflict period, the CF established

governorate-level and local governments and assigned local officials responsibility for managing resources and delivering services to their communities. However, local officials and their staff did not have sufficient resources or the skills and systems to manage funds and program services. In an environment where the central government ministries were dysfunctional and resource allocation and service delivery had been planned and managed centrally, the LGP's assistance was critical in restoring services. At the same time, it seems to have created and planted the seeds of administrative and fiscal decentralization.

*In a country such as Iraq, which has highly skilled human resources, technical assistance must respond to specific gaps in expertise and capacity and capitalize on existing resources to the extent possible.*

The LGP's success in Al Basrah can be attributed to several factors. These include

- The grounding of technical assistance and training programs on needs assessment surveys and dialogue with local officials, which helped the team understand the current state of affairs and identify specific areas of assistance
- The use of experienced local professionals to deliver the technical assistance and training; close the language, trust, and cultural gaps; and ensure long-term sustainability; and
- The use of study tours abroad to broaden the experience of local officials and their staff, as well as LGP's national staff.

Regional and international study tours that exposed public officials and staff to cutting-edge technologies and best practices were particularly effective in broadening the views of local officials and enhancing their skills, effectiveness, and enthusiasm for change in a country where access to international experience was closed for more than three decades. This was evident with both the Al Basrah Governorate and Baghdad mayoralty (*Amanat*) officials and managers, who participated in study tours to the United States, Egypt, Jordan, and the Philippines.

*Providing resources to governorate institutions as early as possible in the postconflict period empowered and encouraged local officials and the civil service to be proactive in restoring operations and service delivery.*

The LGP's work was closely coordinated with the regional CPA and the British Civil Military Affairs unit. Although the CPA's movement was limited during the critical period of August to December 2003, the British military was more actively involved in the effort to get operating funds and capital budget funds



allocated to the governorate institutions and help them restore their operations. When the LGP team began to work with the treasury in September 2003, a proactive British lieutenant colonel was the acting Al Basrah Governorate coordinator. He supported the LGP's efforts and saw the support to the Al Basrah Treasury as key to long-term sustainability, improved security, and the gradual transition of responsibility from the military to governorates for the disbursement of cash payments (during this period, all over Iraq, both British and U.S. forces were using military and seized asset funds to pay the salaries of civil servants managing local governments).

***Building strong service-delivery and fiscal management capability at the local level led central ministries to devolve some functions.***

During the time that the LGP was providing technical assistance to the Al Basrah Treasury, the MOF and the regional CPA economic development coordinator disagreed about how much authority should be delegated to governorate institutions and local treasury offices to handle their own finances. The regional CPA coordinator argued that the governorate institutions should have their own bank accounts and should be required to submit documentation to the Al Basrah Treasury verifying how the funds had been expended, in order to ensure transparency and accountability. The regional CPA coordinator and the LGP saw this as the first important step to fiscal decentralization. The MOF central office in Baghdad, on the other hand, argued that the Al Basrah Treasury should establish one unified account in the Central Bank of Iraq's southern branch and manage the finances of about 40 governorate institutions from this one unified account so that the treasury could maintain complete centralized control over the governorate finances. This was but one example of the blurred lines of authority and conflicting instructions that existed between the regional CPA offices and the MOF, which resulted in much confusion for the governorate institutions in executing their 2003 budgets. By early 2004, however, the MOF in Baghdad had agreed that the governorate institutions should manage their own accounts. Despite issuing repeated warnings and reprimands, the MOF eventually recognized the Al Basrah Treasury as the most productive, functional treasury in Iraq and rewarded the director with a salary raise.

*Building Local Financial Management Capability: The Al Basrah Experience* was written by Marcia Occomy, who served as Al Basrah LGP senior financial management advisor. This brief is dedicated to the memory of William F. Fuller, who led the LGP start-up team in Al Basrah.

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